

Supporting Statement for the Government Securities Dealers Reports (FR 2004 A, B, C, SI, SD, and WI; OMB No. 7100-0003)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), propose to extend for three years, with revision, the group of government securities dealers reports (OMB No. 7100-0003). This group currently includes:

- Weekly Report of Dealer Positions (FR 2004A),
- Weekly Report of Cumulative Dealer Transactions (FR 2004B),
- Weekly Report of Dealer Financing and Fails (FR 2004C),
- Weekly Report of Specific Issues (FR 2004SI), and
- Daily Report of Dealer Activity in Treasury Financing (FR 2004WI).

The Federal Reserve Bank of New York (FRBNY), on behalf of the Federal Reserve, collects data on these reporting forms from primary dealers in the U.S. government securities market. The reports are voluntary; however, to maintain primary dealer status, each dealer is expected to file these reports. The Federal Reserve uses the data to monitor the condition of the U.S. government securities market in its surveillance and analysis of the market and to assist the U.S. Department of the Treasury (Treasury).

The Federal Reserve proposes to make the following modifications: 1) delete the columns for cumulative weekly volume and average weekly rates for repurchase agreements on the FR 2004C, 2) include a new column, FRBNY Security ID, on the FR 2004SI, 3) formalize the collection of the FR 2004SI daily data in the new reporting form FR 2004SD, 4) publish all data collected on the FR 2004C, (5) change the data submission schedule to be uniform across the four weekly reports, and (6) adjust row and column headings to be uniform across reports and to more clearly identify the data to be reported.

The annual reporting burden for the proposed FR 2004 reporting forms is estimated to be 12,342 hours. This is a 2 percent decrease from the current burden of 12,628 hours. Copies of the proposed reporting forms and instructions are attached. The revised FR 2004C reporting form and the new FR 2004SD reporting form would be implemented as of January 7, 2004.

Background and Justification

In the early 1960s, the Federal Reserve began collecting data on positions, transactions, and financing activity from U.S. securities dealers, primarily those with whom it traded. The main purposes of the data were to (1) give the Federal Reserve information on the condition of the U.S. Treasury securities market, and (2) permit an appraisal of the position risk of reporting dealers, the soundness of their trading practices, and the adequacy of their market making in all segments of the market. Market practices changed in a number of important ways during the 1970s as U.S. government securities dealers became involved in the trading and positioning of futures and options and also broadened substantially their participation in the repurchase agreement market. In response

to these developments, in 1979 the Joint Treasury-Federal Reserve Steering Committee asked staff members from the Treasury, the FRBNY, and the Board of Governors to modify and expand the reporting forms. In early 1980, after consultations with individual dealers and the Bond Market Association, the Joint Steering Committee approved substantial changes to the reports.

Minor changes were made to the reports in 1983 and 1986. In 1990, substantial changes were made to meet the Treasury's capital adequacy rules that were adopted in 1987 and the Government Securities Act of 1986, both of which required continuous capital adequacy compliance. In addition, overall coverage of the reports was improved and the data were more closely aligned to information collected by the Securities and Exchange Commission (SEC) and the Treasury. At the same time, reporting burden was reduced considerably.

In January 1992, the Federal Reserve, the Treasury, and the SEC submitted to the Congress the *Joint Report on the Government Securities Market*. As part of the joint agency report, the FRBNY was charged with primary responsibility for the day-to-day surveillance of the U.S. government securities market. The Federal Reserve's dealer surveillance function was eliminated at that time and, consequently, so were certain reporting requirements. At the next scheduled review in 1994, several items on the FR 2004A, B, and C reports were either combined or eliminated, the addendum sections of the FR 2004A and B were eliminated, and the FR 2004SI was introduced to collect some of the information formerly collected on the addendum sections of the FR 2004A and B and to request information on net options and forward financing. In addition, one item was replaced and net financing commitments were added to the FR 2004WI.

The 1997 review yielded additions to the FR 2004A and FR 2004B to collect Treasury inflation-indexed securities and additional information on federal agency and government sponsored enterprise (GSE) securities. Matched-book financings were eliminated from the FR 2004C.

Substantial changes were made to the reports in 2001. Generally, the changes captured information on a broader range of primary dealers' activities in fixed income markets and also eliminated items that were no longer seen as useful. In the late 1990s, the government securities market underwent notable changes in the face of large budget surpluses. As the supply of Treasury securities declined and trading activity in the market diminished somewhat, primary dealers began to take relatively greater positions in private securities and to generally assume a larger role as "market makers" in corporate debt markets. The addition of items to collect information on primary dealers' positions in corporate securities allowed better monitoring of these developments. The revisions also included a change in maturity classifications that provided more detail and was more closely aligned with the classification schedule employed by primary dealers in managing their operations. Data for futures and options were deleted and the financing data were collapsed into the broad categories of Securities In and Securities Out. Lastly, repurchase agreement memoranda were added to obtain more detail of these financing instruments and to also track the cumulative volume and average rates.

Since 1996, the submission of reports has been automated, which has allowed dealer firms to integrate the production of data into their own internal systems. Dealers provide their data to FRBNY by keying their data into the Internet Electronic Submission (IESUB) system or by submitting a text file containing their data to the IESUB system.

The FRBNY is the collector and principal user of the dealer data because of its responsibility for conducting the Federal Reserve's open market operations, its market surveillance responsibility, and its advisory responsibilities to the Treasury. The FRBNY uses the data in gauging market conditions and dealer positions, and the Treasury uses the data in managing its marketable debt. The Federal Reserve also uses the data in conjunction with their ongoing responsibility to monitor and analyze developments in the government securities markets. Such data can be useful for identifying changing market practices. The aggregate dealer data (for the FR 2004A, B, and C) can be obtained by the Treasury, since the reporting dealers play a central role in underwriting and distributing the Treasury's debt. Data from the FR 2004SI, SD and WI are available to the Interagency Working Group.¹

Description of Information Collection

The FR 2004A, B, C, and SI are submitted weekly. The FR 2004A collects data as of Wednesday of each week on dealers' outright positions in Treasury and other marketable debt securities. The FR 2004B collects data cumulated for the week ended Wednesday on the volume of transactions made by dealers in the same instruments for which positions are reported on the FR 2004A. The FR 2004C collects data as of Wednesday of each week on the amounts of dealer financing and fails. The FR 2004SI collects data as of Wednesday of each week on outright, financing, and fails positions in current or on-the-run issues. Under certain circumstances this information can also be collected on a daily basis for on-the-run and off-the-run securities. The FR 2004WI collects daily information on a next-business-day basis on positions in to-be-issued Treasury coupon securities, mainly the trading on a when-issued delivery basis.

The frequency associated with each report allows the FRBNY Markets Group to: (1) monitor certain technical developments in the U.S. government securities market for its own purposes, in relation to open market operations, and in its role in the Interagency Working Group, and (2) fulfill its responsibilities as fiscal agent for the Treasury.

The panel consists of all primary government security dealers. All dealers have voluntarily agreed to report to the Federal Reserve, and any dealer becoming a primary dealer will be expected to file these reports. Currently there are twenty-two primary dealers.

Proposed Revisions

Delete the columns for cumulative weekly volume and average weekly rates for repurchase agreements on the FR 2004C. The cumulative weekly volume and average weekly rate data for repurchase agreements have been used sparingly since these data were added to the FR 2004C as of July 2001. These data have been reported inconsistently across dealers, and the excessive volatility in the data has caused them to be of limited use in market surveillance. Since the cost to the primary dealers to compile the data appears to be higher than the benefits gained from collecting the data, the Federal Reserve proposes to delete the following items from the FR 2004C:

¹ This group consists of staff from the FRBNY, the Federal Reserve Board, the Treasury, the SEC, and the Commodity Futures Trading Commission.

- U.S. Treasury securities cumulative weekly volume (line 1a, column 3)
- Federal Agency and Government Sponsored Enterprise Securities cumulative weekly volume (line 1b, column 3)
- Mortgage-Backed Securities cumulative weekly volume (line 1c, column 3)
- U.S. Treasury securities average weekly rate (line 1a, column 4)
- Federal Agency and Government Sponsored Enterprise Securities average weekly rate (line 1b, column 4)
- Mortgage-Backed Securities average weekly rate (line 1c, column 4)

Include a new column, FRBNY Security ID, on the FR 2004SI. The FR 2004SI currently collects data for securities that are reported for each maturity class. These maturity class categories are hard coded in the dealers electronic reporting programs to sort the securities and are part of the current electronic file submission. These categories are not listed on the reporting form, but referenced in the current instructions. If a dealer were unable to submit the FR 2004SI report electronically and must fax or mail a report, having the categories listed on the report form would aid the dealer in completing the reporting form. The Federal Reserve proposes to include a new column on the FR 2004SI reporting form to capture these categories. Also, at any time Treasury can issue a security with a new maturity class, so flexibility is requested to modify the report form and instructions if this were to occur.

Formalize the collection of the FR 2004SI daily data in the new reporting form FR 2004SD. The weekly FR 2004SI report collects data for on-the-run Treasury securities (the most recently issued Treasury securities for each maturity class). Currently FRBNY may request daily data for certain securities on the weekly FR 2004SI report as noted in the instructions. The daily report collects data for on-the-run Treasury securities and off-the-run Treasury securities (Treasury securities that are not most recently issued for its maturity class). The data for the weekly and daily reports are filed separately because the dealer may have to submit both weekly and daily reports for the same reporting date. Since the data collected may be different and may be collected on the same day, the Federal Reserve proposes to create a new form FR 2004SD to distinguish between the weekly and daily data.

Publish all data collected on the FR 2004C. The Federal Reserve proposes to publish the FR 2004C fails data, which currently are not published. FRBNY publishes the aggregate financing data in the Federal Reserve Bulletin and the FRBNY Press Release which are available on the FRBNY website. Through discussions with FRBNY's Markets Group and the Bond Market Association (BMA), the Federal Reserve has determined that it would also be beneficial to publish the aggregated fails data.

Change the data submission schedule to be uniform across the four weekly reports. Currently the FR 2004A and SI data are required to be submitted no later than 2:30 p.m. on Thursday of each week, the FR 2004C on Friday, and the FR 2004B on Monday. The Federal Reserve proposes to change the data submission schedule so that all four weekly reports would be submitted on Thursday of each week and also extend the deadline from 2:30 p.m. to 4:00 p.m. Currently almost every primary dealer submits the four weekly reports consistently on Thursday of each week. The uniform submission schedule would enable the FRBNY analysts to submit all questions to each

primary dealer at the same time and provide the primary dealers with additional time to answer those questions prior to publication of the data.

Adjust row and column headings to be uniform across reports and to more clearly identify the data to be reported. Currently, the transactions data reported on the FR 2004B, SI, and WI are the same, but the column headings are different. Also, in some cases, the row headings could lead to misreporting because they do not clearly identify the data that should be reported. The Federal Reserve proposes to adjust headings so that they are uniform across reports and so that they clearly identify the data to be reported.

Time Schedule for Information Collection and Publication

All twenty-two respondents submit their data electronically through the internet to the FRBNY. The FR 2004A and SI collect positions data as of Wednesday, and the data are reported the next business day. Under certain circumstances the FR 2004SD would be used to collect positions data on a daily basis, and the data would be reported the next business day. The FR 2004B collects cumulative transactions for the calendar week ended Wednesday, and the data are reported the following Monday. The FR 2004C collects outstanding financing arrangements as of Wednesday, and the data are reported the following Friday. The FR 2004WI collects closing positions, transactions, and net forward financing commitments of the previous business day during each day of the when-issue periods with the last report due on settlement day for the business day prior.² Beginning January 7, 2004, the FR 2004B and C would be reported on the same schedule as the FR 2004A and SI.

Summary data from FR 2004A, B, and C are published each Thursday in a FRBNY press release. These can be obtained from <http://www.ny.frb.org/pihome/statistics/dealer.shtml>. The volume data are published with a one-week lag, while position and financing data are released with a four-week lag. The FRBNY also publishes summary statistics on concentrations of market share from the FR 2004B data on a quarterly basis with a two-week lag. Summary data from the FR 2004A, B, and C also are published in the *Federal Reserve Bulletin* in tables 1.42, U.S. Government Securities Dealers Transactions, and 1.43, U.S. Government Securities Dealers Positions and Financing, with about a two-month lag.

Effective January 7, 2004, the position and financing data collected on the FR 2004A and C would be published on the same schedule as the volume data collected on the FR 2004B. In addition, the Fails to Receive and Fails to Deliver data that are collected on the FR 2004C would be published. The data would be published by asset type with a one-week lag. On that same date, the fails data collected from July 2001 to the current date on the FR 2004C would also be published to provide a historical reference.

Data from the FR 2004SI and WI are not available to the public. They are collected for market surveillance purposes exclusively and are considered strictly confidential. However, all individual respondent data are available to the Interagency Working Group.

² The “when-issued period” for a security extends from the time the security is announced to the time it is issued. FR 2004WI data are collected from the date of Treasury’s announcement through the business day before the issue date. Treasury supplies a schedule of issues to be announced.

Legal Status

The Board's Legal Division has determined that these reports are authorized by law (12 U.S.C. § 248(a)(2), §§ 353-359, and § 461(c)) and are voluntary. Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. § 552 (b)(4) and (b)(8)).

Consultation Outside the Agency

The Bond Market Association (BMA) maintains contact with FRBNY to provide feedback from the dealer community on various reporting issues and proposed modifications to the FR 2004 reports. The FRBNY consulted the dealers during the development of proposed changes to these reports and received comments on the content and burden of the revisions. The BMA and the dealers cited no objections to the proposed revisions to the forms and submission deadlines, and publication changes.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The cost of collecting and processing the data falls entirely on the FRBNY. Their current costs associated with the FR 2004 reports are estimated to be \$700,000 per year and are expected to remain the same. The one-time costs to implement the revised reports are estimated to be \$136,300.

Estimate of Respondent Burden

The burden for the current FR 2004 reports is estimated to be 12,628 hours annually, as shown in the table. The burden for the proposed FR 2004 forms is estimated to be 12,342 hours, a decrease of 286 hours, which results from eliminating six items on the FR 2004C. All respondents prepare and submit these data in an automated manner, which has helped to lessen the burden. Federal Reserve estimates the burden for these reports represents less than 1 percent of total System burden for all reports.

The burden estimate for the current FR 2004SI includes both the weekly and daily respondents. The burden estimate for proposed forms is split between the weekly FR 2004SI and the daily FR2004SD. The Federal Reserve estimates that they collect daily information approximately twenty-five times each year.

	<i>Number of Respondents</i>	<i>Annual Frequency</i>	<i>Estimated Average Hours Per Response</i>	<i>Estimated Annual Burden Hours</i>
Current				
FR 2004A	22	52	1.5	1,716
FR 2004B	22	52	2.0	2,288
FR 2004C	22	52	1.5	1,716
FR 2004SI	22	77	2.0	3,388
FR 2004WI	22	160	1.0	<u>3,520</u>
<i>Total</i>				12,628
Proposed				
FR 2004A	22	52	1.5	1,716
FR 2004B	22	52	2.0	2,288
FR 2004C	22	52	1.25	1,430
FR 2004SI	22	52	2.0	2,288
FR 2004SD	22	25	2.0	1,100
FR 2004WI	22	160	1.0	<u>3,520</u>
<i>Total</i>				12,342
<i>Change</i>				(286)

Based on a rate of \$20 per hour, the estimated annual cost to the public for the proposed FR 2004 forms is \$246,840.

Attachments

Proposed FR 2004 Reporting Forms:

FR 2004A	Weekly Report of Dealer Positions
FR 2004B	Weekly Report of Cumulative Dealer Transactions
FR 2004C	Weekly Report of Dealer Financing and Fails
FR 2004SI	Weekly Report of Specific Issues
FR 2004SD	Daily Report of Specific Issues
FR 2004WI	Daily Report of Dealer Activity in Treasury Financing

Proposed FR 2004 Instructions